

School District Student Activity Funds Questions and Answers Athletics

Student Activity funds are “public funds”. As such, these funds are subject to the statutory requirements for all public funds of the School District. Public funds are governed by Article III, Section 31 of the Constitution of the State of Iowa. That is, public funds may only be spent for the public benefit.

Student Activity funds are under the fiduciary control and responsibility of the School District’s Board of Education (Board). The Board establishes policies and then procedures are put into place by the School District’s Administration/Business Office to establish internal control over these funds and to ensure compliance with Board policies and other statutory requirements including Dillon’s Rule; Chapter 298A of the Code of Iowa; Iowa Department of Education Administrative Code Section 281-12.6(1); court cases; and opinions of the Iowa Attorney General.

The following questions and answers are designed to address issues pertaining to internal control and/or statutory compliance requirements, primarily pertaining to school athletics. **Appendix A** at the end of this document includes references and definitions that may be helpful in using this document.

We are not attorneys and the answers included in this document should not be considered to be legal opinions. School Districts may need to consult legal counsel for guidance regarding specific circumstances. You may also contact the Iowa Auditor of State at 515-281-5834 regarding questions and clarification of the items addressed in this document.

1. QUESTION: The District charges admission to its athletic events. What is the best way to account for this?

ANSWER: The District should have internal control procedures established for handling cash for all activity events, including athletic events. The Board would of course, approve any policies and the District’s business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the “accounting” function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District’s vault or other secure location at the District’s office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.

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- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Remember: Districts won't be able to know they have accounted for everything, if they don't know how much should have been collected.

2. QUESTION: Are there any special requirements for High School tournament events?

ANSWER: The Iowa High School Athletic Association (IHSAA) and Iowa Girls' High School Athletic Union (IGHSAU) issued a joint communication dated January 20, 2005 regarding the accounting procedures to be used by member schools during IHSAA and IGHSAU sponsored tournament events. A copy of that letter is included in this document as **Appendix B**.

The Boards of these organizations adopted a policy required to be used by schools serving as IHSAA and IGHSAU tournament hosts. Specifically, the procedures required include:

- (1) Collect the money for the ticket(s) sold.
- (2) Tear ticket(s) off the roll in consecutive order and then tear the ticket(s) in half or have the person at the entrance door tear the ticket(s) in half and deposit them in a receptacle, there upon the spectator may enter the tournament venue.

3. QUESTION: Where should the District record revenue from the state organizations for hosting athletic tournaments, leading to and including the state tournaments and where should the District record the revenue from the state organizations for travel expense reimbursement?

ANSWER: Districts should record revenue from the state organizations for hosting athletic tournaments in the General Fund. Under Dillon's Rule and Iowa Code, the revenue is not otherwise required to be recorded in another fund. Also, the maintenance fees and other overhead costs are paid from the General Fund so the related revenue should be recorded in the General Fund to match and offset the expense. The travel expense reimbursements would be recorded in the District's Student Activity Fund since the travel expense would have been paid from that fund.

4. QUESTION: Are exclusive vendor contracts allowable and if so, can the revenue from exclusive vendor contracts be recorded directly in the Student Activity Fund, Athletic Account?

ANSWER: In accordance with an opinion of the Iowa Attorney General dated February 15, 2000 exclusive vendor contracts are allowable. The opinion states in part:

- a. "The Board of Directors of a public school district may enter into exclusive contracts with vendors for the purchase of products sold on school premises or at school functions.
- b. Vendor contracts for non-educational goods are proprietary in nature and may extend beyond the term of current board members.
- c. A marketing firm may be employed to assist with the negotiation and oversight of vendor contracts.

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- d. While statutory public bidding requirements are not applicable to school district contracts for the purchase of goods and services, public policy supports use of competitive bidding procedures for such contracts.”

Revenue from exclusive vendor contracts must be recorded directly in the District’s General Fund and not in the Student Activity Fund (emphasis added). Under Dillon’s Rule, there is no statutory requirement or authority to record the revenue in another fund.

According to guidance provided by the Iowa Department of Education and Auditor of State, Districts must record the revenue from exclusive vendor contracts in the General Fund. It may then be expended for General Fund purposes including athletics or other extracurricular activities to the extent the expenditure would be allowable and appropriate from the General Fund.

5. **QUESTION:** The District’s Athletic (or Band, Vocal Music, PTA, etc) Booster Club, a separate nonprofit organization, received permission from the Board of Education to construct a concession stand on District property. They have asked the District to share in the cost. Can the District make a contribution from the General Fund or Special Revenue, PPEL Fund to the District’s Athletic Booster Club for this specific purpose?

ANSWER: Pursuant to a Chapter 28E contractual agreement, the District may contribute towards the cost of the concession stand. The District may make payments to a contractor or other vendor pursuant to Chapter 279.29 of the Code of Iowa for a portion (or percentage share) of the cost of the concession stand. The District must also comply with the competitive bidding requirements of Chapter 73A of the Code of Iowa if the total cost exceeds \$25,000.

Ideally, the District would manage the project in order to ensure compliance with these statutory requirements as well as to ensure that adequate insurance coverage is in place until title passes to the District.

The District’s share of the cost may be paid from the Physical Plant and Equipment Levy (PPEL) but not from the General Fund since the General Fund may not be used for construction.

6. **QUESTION:** Can salaries for coaches be paid from the Student Activity Fund?

ANSWER: Yes, salaries for coaches or other student activity type wages can be paid from the appropriate account in the Student Activity Fund provided the District processes the payments through the District’s regular payroll process subject to proper payroll withholdings and reporting. Districts may want to exercise caution in paying salaries from the Student Activity Fund as it may inadvertently leave a false impression of the District’s financial condition.

7. **QUESTION:** Do employees of the district that officiate have to be paid with regular payroll or may they be treated as an independent contractor?

ANSWER: This question was answered in a School Business Alert dated June 2001.

“There has been a great deal of discussion recently regarding school district employees that perform officiating duties/referee services for their school districts. The Lamoni Community School District received an Internal Revenue Service (IRS) SS-8 determination that concluded that based on the specific information provided the worker (employee/referee) was an independent contractor for referee services provided to the school district. This information has been shared across the state and applied by a

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number of school districts in treating referees as independent contractors for withholding purposes.

It is our understanding that the Lamoni Community School District determination applies solely and only to the individual and specific circumstances for which it was issued. The determination states in part 'This ruling is directed only to the taxpayer to whom it is addressed, however, it is applicable to any other individuals engaged by the firm (district) under similar circumstances.' Section 6110(j) (3) of the Internal Revenue Code provides it may not be used or cited as precedent (emphasis added). Accordingly, other districts may not use this determination as a basis to treat their employee/referees as independent contractors.

IPERS has determined that even though the individual may otherwise be a covered employee, the income received as a result of performing referee services for varsity and junior varsity athletic events for which a license is needed from the Iowa High School Athletic Association, is excluded from IPERS coverage.

The Auditor of State and Department of Education continue to advise school districts and their auditors that additional payments to employees of a district who provide additional services to the district should be handled through the district's regular payroll process and reported as wages on the employee's W-2. Districts should review this information and address questions, if any, to their independent auditors."

8. QUESTION: Can School Districts pay athletic officials immediately following the game?

ANSWER: This question was answered in a School Business Alert dated May 1996.

Chapter 279.30 of the Code of Iowa states that "The board of directors of a school district or an area education agency may by resolution authorize the secretary or administrator, in the case of an area education agency, to issue warrants when the board of directors is not in session in payment of freight, drayage, express, postage, printing, water, light, and telephone rents... and for the payment of salaries pursuant to the terms of a written contract..."

This chapter goes on to state, "In addition, the board of directors may by resolution authorize the secretary or administrator, upon approval of the president of the board, to issue warrants when the board of directors is not in session, but only upon verified bills filed with the secretary or administrator..."

Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid the night of the game, after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The district should have a policy and (athletic) officials should be informed that payment will be made in this manner unless a valid contract exists.

9. QUESTION: Can we give a gift certificate to volunteers that have assisted the athletic department during the year?

ANSWER: Article III, Section 31 of the Constitution of Iowa provides that public funds may only be spent for the public benefit. This concept is also addressed in various court cases and opinions of the Iowa Attorney General, including an opinion dated April 25, 1979.

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Because this establishes a precedent, this decision should be made by the District's Board of Education, rather than District officials, department heads or employees.

Expenditures in this "gray" area should be evaluated and determined through the criteria of "public purpose" and the Board should document the public purpose served including how the public benefits through the expenditure of public funds for the particular purpose such as gift certificates. Documentation should be in the Board minutes and/or through established Board policy. The decision and documentation should be in place prior to spending the public funds.

Keep in mind, this decision and related documentation may not eliminate the shadow of doubt surrounding this type of expenditure. It simply establishes the District's consideration and justification for the expenditure.

If the volunteer is also an employee of the District, the value of the gift certificate would be compensation and must be accounted for through the District's regular payroll process subject to withholdings pursuant to Chapter 422.16 of the Code of Iowa. If the volunteer is not an employee of the District, the gift certificate, if provided for services performed, should be reported on a 1099, if applicable.

A better alternative may be to ask the Athletic Booster Club to provide the gift certificates to the volunteers in lieu of using public funds.

- 10. QUESTION:** When the District orders merchandise, the vendors sometimes "throw in" some extra items for the coaching staff. Is this allowable?

ANSWER: Chapter 68B of the Code of Iowa establishes the ethical requirements for state and local government for Iowa's "gift law". According to a document prepared by the Iowa's Ethics and Campaign Disclosure Board, the gift law "prohibits officials and employees or their immediate family members from receiving or soliciting gifts from a "restricted donor." The School District Board of Education should have a policy regarding compliance with Iowa's gift law.

Chapter 68B.2 (24) includes four definitions for restricted donor including "a person seeking to be a party to a sale, purchase, lease or contract with the agency (includes school districts) the state official or employee is employed." Exceptions to the receipt or solicitation of gifts are detailed at Chapter 68B.22 (4) including an exception for nonmonetary items with a value of three dollars or less received from any one donor during one calendar day. Restricted donors may not "pool" resources to give a gift greater than three dollars. Chapter 68B.22 (3) of the Code of Iowa requires that items received from restricted donors must be turned over to the School District for official use within 30 days.

Referring again to the Iowa Ethics and Campaign Disclosure Board document, "a good rule of thumb is for state (and local) officials and employees to avoid receiving or soliciting gifts from anyone who would have an interest in the actions of the official or employee's agency."

Pursuant to Chapters 68B.25 and 903.1, violating the gift law could result in imprisonment and/or fines and can also be grounds for dismissal or other employee discipline.

- 11. QUESTION:** Do Districts have to approve and account for all fundraising activity including fundraising activities of affiliated organizations as well as Board-sponsored fundraising activities?

ANSWER: According to an opinion of the Iowa Attorney General dated September 1, 1983, "Iowa law does not require school district to maintain funds raised by outside organizations

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in the school activity account. A school district board may regulate fund-raising activity during school and school sponsored events and it may regulate the use of funds derived from those sources.”

Districts should have policies and/or procedures in place to address fund-raising activity including:

- a. The Board or its designee should approve all District-sponsored fund-raising activity.
- b. The Board may also adopt a policy to require Board approval of all fund-raising activity including fundraising activities of affiliated organizations such as Booster Clubs and the PTO.
- c. Boards should establish procedures for fund-raising activity for District-sponsored fund-raisers as well as fund-raisers sponsored by outside groups and organizations to help ensure consistency and accountability over fund-raising activities.
- d. The Board should determine the extent, if any, of administrative support to be provided for District-sponsored and affiliated organization fund-raising activity including the cost and/or expense associated with staff time used in collecting payments; preparing, printing and/or assembling mailings; postage; etc.
- e. Fund-raising activity should be clearly designated as District-sponsored and/or sponsored by an outside group or affiliated organization to clearly establish responsibility and accountability.
- f. If District-sponsored, the District should account for the fund-raising activity.

- 12. QUESTION:** May Athletic Directors or coaching staff establish separate checking accounts for fundraising or other activities related to athletics and, if so, is it okay to use the District’s taxpayer ID number?

ANSWER: No. Athletic Directors or coaching staff should not establish separate checking accounts for fundraising or any other purpose using the District’s taxpayer identification number or their own personal taxpayer identification number. Athletic Directors and coaching staff should comply with the accounting procedures established by the District. If a separate checking account is deemed necessary and appropriate, it should be opened and accounted for through the District’s business office.

This allows the District to comply with Chapter 291.6 of the Code of Iowa regarding the duties of the District Secretary to “keep an accurate account of all expenses incurred by the corporation, and present the same to the board for audit and payment” pursuant to Chapter 279.29 of the Code of Iowa. This also ensures that proper internal control procedures are in place for compliance and accountability and allows legitimate use of the District’s taxpayer identification number and sales tax exemption on purchases made from this account.

- 13. QUESTION:** How should Districts handle sports camps/clinics?

ANSWER: Sports Camps/clinics may be handled differently depending on whether the sports camp/clinic is sponsored by the District (Community Education Program) or privately sponsored using District facilities.

The rules established pursuant to Iowa Administrative Code Section 281-36.15(6) must also be addressed and complied with. These rules address summer camps and clinics and

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coaching contacts out of season. This Q&A is intended to address sports camps/clinics held in compliance with these rules.

Advertisements and other materials related to the sports camp/clinic should clearly identify or distinguish whether it is a District-sponsored sports camp/clinic or a privately-sponsored sports camp/clinic using District facilities.

District-sponsored sports camp/clinic: The Board should approve the salaries/wages along with approval to hold the sports camp/clinic (if not otherwise established as a school activity or part of the Community Education program). Revenue for fees collected should be deposited and recorded in the Student Activity Fund. All sports camp/clinic related expenses would require prior approval (purchase order) and payments would be processed through the normal disbursement process. Salaries for district personnel should be negotiated in advance and salary payments should be processed through the District's normal payroll process, subject to withholdings etc. Wages would be reported on the District employee's W-2 at year-end. Non-employees (sports camp/clinic staff not otherwise employed by the District and who meet the criteria for independent contractors pursuant to and consistent with the results of IRS Form SS-8) do not need to be paid through payroll. However, a 1099 should be issued at year-end, if applicable, depending on the amount paid.

Sports camp/clinic fees should be based on actual costs anticipated and fees should be established to at least break-even. Excess funds (profit), if any, should be retained by the District in the Student Activity Fund and not remitted or retained by the sports camp/clinic coaching staff.

Privately-sponsored sports camp/clinic using District facilities: The contract between the sports camp/clinic facilitator and District should address facility and equipment use and rental fees (established by the sports camp/clinic facilitator); insurance and other costs of conducting the sports camp/clinic. The sports camp/clinic facilitator would need to rent the facility for the sports camp/clinic pursuant to Chapter 297.9 and 297.10 of the Code of Iowa and the District's policy. The sports camp/clinic facilitator would need to provide a certificate of insurance for liability coverage.

- 14. QUESTION:** Can the District purchase shirts, jackets or other clothing for District employees from the Student Activity Funds?

ANSWER: Article III, Section 31 requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. Districts should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

Districts may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

- 15. QUESTION:** The Athletic Booster Club is a separate nonprofit organization not established by the District pursuant to Chapter 279.60 of the Code of Iowa but independently

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established to benefit the District's athletic program. Does it have to be included in the District's audit?

ANSWER: In accordance with criteria established by Governmental Accounting Standards Board (GASB), in GASB statements 14 and 39, auditors must review the organization and financial information of these potential component units (PCU). If the PCU is deemed to be "significant" to the District as a whole, the auditors will include the activity in the District's audit report.

Some Districts perform the accounting and record-keeping functions for the Booster Club. In this case, the financial information is reported in the District's audit in the Agency Fund since the District has fiduciary responsibility over the Booster Club's financial activity. Whether or not the District performs the accounting and record-keeping function for the organization, inclusion in the audit report is for reporting purposes only. It does not change or affect the legal status or operating activities or requirements of the Booster Club.